THE GREAT EU CONJURING TRICK

By talking to the original players behind the single currency, Allan Little and Jane Beresford reveal the astonishing sleights of hand that have brought the euro to its knees.
In the Nineties, the economist Miranda Kafa was at Salomon Brothers in London, watching from a distance as her native Greece prepared to enter the euro. She knew - and advised her clients - that Greece’s economy was not ready, that the statistics its government was publishing did not reflect reality.

“Told me how to make the statistics look good,” she told me. “We always saw the head of the statistical agency of Greece, who cooked the books to make their numbers look good. We knew they were not right, but we had to work with them. He made inflation disappear. And he made the deficit disappear.”

I asked her, what was the Greek state railway? “There were more employees than passengers. A former minister, Stefanos Manos, said publicly at the time that it would be cheaper to send everyone by taxi. How did they cover this deficit? The company issued shares that the government would buy. So it was counted not as expenses, but as a financial transaction” - and did not appear on the budget balance sheet.

In 2004, with Greece a member of the euro, the conjuring trick was becoming transparent. A new, centre-right government was elected, with Peter Doukas appointed Finance Minister.

In 1993, the Maastricht treaty, member states must keep their budget deficits below 3 per cent of GDP. So what did he do? “I asked the senior statesman to give me details on the budget that had been passed the previous December,” says Doukas. “I said don’t worry about deficit, just tell me the true story.”

The difference between the published deficit and the real one was huge. “[It] was about 7 per cent of GDP. The budget was said to be 1.5 per cent. The real shortfall was 8.3 per cent.” Under the Maastricht treaty, member states must keep their budget deficits below 3 per cent of GDP. So what did he do? “I said we should start chopping down the budget. But the answer I got at the time was: ‘We have the Olympic Games in a few months and we cannot upset the whole population and have strikes and everything just before the Olympic Games’.”

In 2003, France and Germany had both overspent, and their budget deficits exceeded the 3 per cent limit to which they were bound. The Commission - led by the former Italian Prime Minister Romano Prodi - had the power to fine them. But finance ministers voted not to enforce the rules, which were designed to protect the euro’s stability. France’s then-Chancellor, Gordon Brown, still committing sterling to its love affair with prudence, voted with the French and Germans. The EU is often criticised for the power wielded by the unelected European Commission. On this pivotal occasion, the Commission ran up against something much more powerful: the combined will of democratically elected governments.

“Clearly,” Romano Prodi told me, “I had not enough power. I tried and they [the finance ministers] told me not to.”

Jacques Lafitte was seconded to Brussels in the Nineties to help construct the single currency. He said the technocrats working on the project knew that some central mechanism was needed to ensure member governments complied with the rules. “We made suggestions to the member states the time but these were rejected because they would have involved transferring sovereignty from national governments to Brussels or maybe Frankfurt,” he says.

“We knew deep inside, again, we could not say so publicly. We were more technocrats. We were supposed to shut up and listen to the member states who, almost by definition, knew better. I was convinced it was not enough.”

Sir John Grant was Britain’s ambassador to the EU at the meeting of finance ministers. He says: “The credibility of the Commission and the readiness of the member states to accept its authority as the independent enforcer of the Maastricht criteria was gravely undermined.”

It was also a signal to everyone else in Europe. “The view,” says the Greek budget minister Peter Doukas, “was that if the big boys won’t impose discipline on themselves, they’ll be more relaxed in enforcing the treaty [on us]. No one can impose sanctions on Germany and France. They are the European superpowers, So they won’t adhere. The pressure was simply not there.”

Europe is wise after the event. The power the nations retained to police their own budgets is being stripped away. Governments in the eurozone will, in future, be required to submit their budgets to Brussels for approval. How long before national populations revolt in the name of democracy?

From Helsinki to Athens, revolt is stirring, and often shot through with anti-German sentiment. “Germany is the locomotive of pain for other people’s problems,” says Doukas. “It will ask to have a

Admitting Italy into the single currency was the key mistake

much bigger say in what’s happening in Greece and Italy and Spain. The centre of gravity of Europe is rapidly moving towards Berlin. In the fiscal union they will be the ones dictating the terms, with France as a junior partner.” The idea of Germany throwing its weight around spooks the Germans themselves. They do not seek, and do not want, leadership in Europe. But leadership has been thrust upon them.

In November, in a speech in Berlin, the Polish Foreign Minister Radoslaw Sikorski appealed to Germany to act. “I will probably be the first Polish foreign minister in history to say so but here it is: I fear German power less than I begin to fear German inactivity.”

The unfolding paradox is this: that a process motivated 20 years ago by a desire to Europeanise Germany looks likely to have precisely the opposite effect. Much of Europe will now be required to Germanise its economic governance.

© Allan Little is a special correspondent for the BBC. His three-part series, Europe’s Choice, begins today on Radio 4 at 1.30pm